

## Message Text

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ORIGIN XMB-04

INFO OCT-01 EUR-12 ISO-00 EB-08 AID-05 CIAE-00 COME-00  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 AGRE-00 GSA-02 NEA-10 /094 R

DRAFTED BY XMB: L M LAROCHE:NL  
APPROVED BY EUR/SE:NCLEDSKY  
XMB: C NORRIS  
EB/IFD/ODF:MVCREEKMORE  
EUR/SE:RCEWING  
-----050697 022115Z /72

P 021955Z AUG 77  
FM SECSTATE WASHDC  
TO AMEMBASSY ANKARA PRIORITY  
INFO AMCONSUL ISTANBUL PRIORITY  
AMCONSUL IZMIR  
AMCONSUL ADANA

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E.O. 11652: N/A

TAGS: EFIN, TU

SUBJECT: LENDERS' VIEWS ON STABILIZATION PROGRAM AND IMF  
STANDBY

1. FORMER AMB TO UN AND PRESENT DIRECTOR AND HEAD OF INTL  
RELNS DEPT OF YAPI VE KREDIT BANKASI, NURI EREN, CALLED  
ON EXIMBANK 27 JULY DURING VISIT TO U.S. TO PAVE WAY FOR  
NEW YORK OFFICE FOR YKB. EREN REGARDS NYC AS WORLD  
FINANCIAL CENTER. (COMMENT: YKB MOVE FOLLOWS ESTABLISH-  
MENT OF AKBANK OFFICE IN NYC BY FORMER AKBANK LONDON REP  
DANISMAN, FORMER MIN FIN OFFICIAL. EREN INDICATES NENEP  
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BANK ALSO PLANS TO SET UP NYC OFF.) EREN ALSO VISITED  
IMF AND IBRD.

2. ASKED HIS VIEWS OF TURKISH ECONOMIC SITUATION, EREN  
SAID HIS PURPOSE WAS TO ASCERTAIN EXIM VIEWS. DID SAY,  
HOWEVER, HE HAD MORE CONFIDENCE IN QUOTE ECONOMIC  
IMPERATIVES UNQUOTE THAN GOT PROMISES, I.E., THAT

WILLY-NILLY, GOT WOULD BE OBLIGED TO UNDERTAKE CORRECTIVE

MEASURES. EXIM STAFF INDICATED THAT IT ALSO CONSIDERED THIS TO BE CASE, BUT UNFORTUNATE THAT LACK OF ACTION PREVIOUSLY IN RESPONSE TO DOMESTIC AND GLOBAL IMPACT OF OIL PRICE INCREASE AND REMOVAL OF MILITARY GRANTS AND CREDITS HAD BROUGHT SITUATION TO THIS PASS. INTERESTED OBSERVERS HOPED THAT SECOND NATL FRONT COALITION WOULD BE MORE ABLE TO COPE WITH PROBLEMS THAN FIRST COALITION HAD BEEN.

3 EREN SAID THAT ASSUMING IMF ASSISTANCE IN DOLS. 100-300MILLION RANGE, AND RESTORED CONFIDENCE (AND ACTIVITY) OF PRIVATE BANKS, THERE WOULD STILL, PER OECD CONSORTIUM CHAIRMAN, FOR EXAMPLE, BE BOP GAP ON ORDER OF DOLS. 500 MILLION TO BE FILLED, AND ASKED HOW EXIM THOUGHT THIS MIGHT BE DONE. STAFF REPLIED THAT EXIM'S ROLE CONFINED TO EXPORT FINANCING, THROUGH SUPPLIER CREDIT OR DIRECT PROJECT LENDING, VERSUS PROGRAM OR BOP LENDING, AND THAT IT WAS NOT ITSELF IN POSITION TO SPEAK TO THIS POINT.

4. EREN ALSO SAID THAT HE HAD CONSULTED WITH DEMIREL BEFORE LEAVING TURKEY 10 DAYS BEFORE, AND WOULD BE SEEING HIM AGAIN ON RETURN.

5. STAFF MADE FOLLOWING THREE POINTS:  
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(A) NOT ONLY APPROPRIATE ECONOMIC STABILIZATION MEASURES NECESSARY, BUT ALSO GOT AGREEMENT WITH IMF ON STANDBY ARRANGEMENT, IN ORDER TO PROVIDE BOTH MEASURE OF FINANCIAL ASSISTANCE TO MEET IMMEDIATE NEEDS, AND SEAL OF APPROVAL, ENTAILING CONDITIONS AND QUANTITATIVE MEASURES OF ECONOMIC PERFORMANCE, IN ORDER TO RESTORE AND MAINTAIN CONFIDENCE OF PRIVATE AND BILATERAL OFFICIAL LENDERS.

(B) EXIMBANK HAS HAD FAVORABLE VIEW OF LONG-RUN OUTLOOK FOR TURKISH ECONOMY, WHICH IT HOPES CAN BE MAINTAINED, PROVIDED NECESSARY CORRECTIVE MEASURES ARE TAKEN AND SHORT-TERM DIFFICULTIES OVERCOME. (DISCUSSION MOVED TO FACTORS GIVING RISE TO DIFFICULTIES BEYOND GOT CONTROL, AND TURNED TO FAILURES NEVERTHELESS OF GOT TO COME TO GRIPS WITH PROBLEMS, I.E., DEFECTIVE POLICIES WITH RESPECT TO RELIANCE ON CONVERTIBLE DEPOSITS AT HIGH COST AND ON INAPPROPRIATE TERMS FOR USES, GOVT SPENDING, SEE DEFICITS, SUBSIDIES, PRICE AND RATE POLICIES, DEVELOPMENT PROJECTS, MONEY AND CREDIT, COMMODITY MARKETING, EXPORT PROMOTION, CUKUROVA ELEKTRIK FIASCO, ETC.) NONETHELESS, LONG-TERM GROWTH AND DEVELOPMENT IMPRESSIVE, AND TURKISH

MARKET AN IMPORTANT ONE, IN WHICH BANK HOPES TO REMAIN ACTIVE.

(C) AS AND WHEN SITUATION IMPROVES, BANK WOULD CONTINUE TO EMPHASIZE, AS IT HAS, EXCHANGE-EARNING PROJECTS, AND THOSE EXPLOITING INDIGENOUS ENERGY AND MINERAL RESOURCES AND AGRICULTURAL EXPORT POTENTIAL, AS WELL AS MEETING OTHER CRITERIA PREVIOUSLY ADUMBRATED.

L (A) FOR IZMIR. EREN SURPRISED STAFF BY PULLING OUT OF HIS VALISE A STUDY ON MINERAL GRINDING AND CLASSIFYING PLANT PLANNED BY DYO PAINT, VARNISH AND RESIN WORKS, INC., PART OF IZMIR-BASED YASAR HOLDING GROUP. PLANT WOULD BE THIRD OF DYO FOR PRODUCTION OF MICRONIZED CALCITE, AND LIMITED OFFICIAL USE

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LATER BARITE, KAOLIN, TALC, AND OTHER MINERALS USED IN PAINT, PLASTIC, TIRE, AND OTHER INDUSTRIES. PLANT WOULD MEET INCREASED DOMESTIC AND EXPORT DEMAND. DYO HAS EXPORTED ABOUT 1/3 OF AVG. ANNUAL PRODUCTION, AND IS ONLY TURKISH EXPORTER AT PRESENT, THOUGH PLANNED NEW FIRM, BIGA, AT CANAKKALE WOULD ALSO BE EXPORT-ORIENTED. FX COST OF EQUIPMENT FOR DYO WOULD BE ABOUT DOLS. 700,000. NOT CLEAR WHETHER U.S. IS LOGICAL SOURCE OF EQUIPMENT SINCE STUDY REFERS TO DM COSTS AND MAYBE GERMAN BRAND EQUIPMENT.

(B) STAFF ASKED ABOUT TIMING, INDICATING BELIEF THAT MANY PROJECTS, PERHAPS INCLUDING THIS ONE, INEVITABLY WOULD BE DEFERRED DUE TO FOREIGN EXCHANGE STRINGENCIES, ESPECIALLY SINCE TURKS FAILING TO UTILIZE CREDITS ALREADY AUTHORIZED FOR EXISTING PROJECTS AND PROGRAMS, DUE TO INABILITY EVEN TO RAISE CASH PAYMENT. STAFF WOULD NEVERTHELESS GIVE PRELIMINARY TENTATIVE VIEW ON PROJECT AFTER REVIEW.

(C) CONSULATE'S VIEWS ON PROJECT AND SPONSOR REQUESTED, WITHOUT INITIATING INQUIRIES FOR TIME BEING. PROJECT MIGHT WELL QUALIFY FOR MEDIUM-TERM GUARANTEE OR INSURANCE COVER, EVEN NOW, IF U.S. PROCUREMENT IS A POSSIBILITY.

7. MORGAN GUARANTY REP JUST BACK FROM TURKEY EXPRESSED CAUTIOUS OPTIMISM ABOUT PROSPECTS FOR NEW GOVT TO DEAL WITH SITUATION. APPARENTLY PICKED UP SOME TALK, HOWEVER, OF GOT UNDERTAKING QUOTE IMF-TYPE UNQUOTE REFORMS. EXIM HOPES THAT SUCH MEASURES WILL BE MORE THAN MERE PALLIATIVES AND WILL LEAD TO FORMAL IMF RATIFICATION OF STABILIZATION PROGRAM IN FORM OF STANDBY ARRANGEMENT BELIEVED ESSENTIAL TO HOLD CREDITORS LIMITED OFFICIAL USE

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IN LINE. IMF CONDITIONS AND QUANTITATIVE TARGETS  
REGARDED NECESSARY TO ASSURE GOT NOT ONLY GETS OVER  
IMMEDIATE HURDLES BUT IS DEALING WITH UNDERLYING  
PROBLEMS. BY SAME TOKEN, IT IS FELT THAT IT WOULD BE

UNFORTUNATE IF ANY INTER-GOVERNMENTAL ASSISTANCE THAT  
MIGHT BE ARRANGED WOULD HAVE EFFECT OF TAKING GOT OFF IMF  
HOOK. GRANTED THAT GOT NEEDS TIME, IT IS BELIEVED  
ESSENTIAL TO ATTACK PROBLEMS AT ROOTS.

8. IN RESPONSE TO EREN QUERY WHETHER ANY OTHER GOVT HAD  
GOTTEN INTO SUCH A MESS, I.E., ARREARS EVEN ON LETTER OF  
CREDIT REMITTANCES FOR GOODS ALREADY SHIPPED AND  
ACTUALLY IN HANDS OF BUYERS, STAFF SAID IT THOUGHT  
THERE HAD BEEN WORSE CASES, AND THAT THERE STILL WERE  
UNDERLYING STRENGTHS IN TURKISH SITUATION. CHRISTOPHER

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## Message Attributes

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**Disposition Remarks:**  
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**Document Unique ID:** 00  
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**Executive Order:** N/A  
**Errors:** N/A  
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**Litigation History:**  
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**Original Handling Restrictions:** n/a  
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**Original Previous Handling Restrictions:** n/a  
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**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009